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## INSTITUTIONAL PROPERTIES OF THE SOUTH EAST EUROPEAN REGION<sup>1</sup>

*This paper will identify and analyze the basic institutional characteristics of the region of South East Europe (SEE6), because the building of institutions is one of the main conditions for sustainable development. Basic theoretical and practical barriers, that crucially influenced the current unfavorable transitional institutional characteristics in SEE6, will be researched in a selective way. The aim of this paper is to demonstrate the essential institutional differences of this region in comparison with developed countries, particularly in terms of real institutional change, the application of institutional pluralism and the main institutional barriers. The paper starts from the hypothesis that ignoring the institutional pluralism and domination of alternative institutions in SEE6 led to dysfunctionality of institutional change, which had a negative impact on all indicators of economic development in the surveyed countries. The emphasis is on the factors of monistic anti-institutional action, from which the alternative institutions stand out for their destructive significance. It points to devastating and anti-developmental consequences of their actions, and their theoretical support of neoliberal type, which is in practice vulgarized and converted into a quasi-neoliberalism. It identifies the real and concrete causes of reproduced institutional vacuum. The findings from the study suggest that countries of the SEE6 region should apply civilization-proven development models of institutional pluralism type. This indicates the importance of taking real institutional changes and urgent overcoming the quasi-institutional forms in order to successfully valorize the economic resources in the countries of SEE6.*

**Keywords:** institutional pluralism, institutional changes, alternative institutions, region of South East Europe

### 1. Introduction

During the period of the post-socialistic transition in the countries of the SEE6 region, a whole system of inhibiting factors have been operating (formal, informal, and alternative), causing the formation of conglomerate system dysfunctionality. This have had a synergetic, destructive, and braking character, and led to the "coordination

failures" [1], "institutional traps" [2] and the subsequent "poverty trap" [3]. Unproven transitional attempt has been succeeded by the less successful socialist problem-solving demonstration.

Many institutional deviations were reproduced under the decisive influence of monistic quasi-institutional economic policies of neoliberal type during the 25 years of transition, which took place from the initial institutional vacuum, through parallel formation of formal and alternative institutions to permanent institutional failures. It

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turned out that the neo-liberal economic policies served the privileged "elite" as theoretical screen for achieving and preserving the non-market acquiring the wealth and power.

In addition to the negative internal regional events (wars, disruption of economic cooperation and its slow recovery, decline of economic indicators, etc.) and external influences (global crisis, imposition of the foreign patterns and conditioned access to the wider variety of regional integration), it is likely that expansion and strong impact of alternative institutions<sup>1</sup> (in practice) and quasi-neo-liberal rhetoric (in theory) was crucial for anti-institutional characteristics of the social and economic realities in the SEE6 region. Apart from such external and internal negative factors, the dominant influence of multiplicative hindering mechanism, which prevented the desired economic and social development. This mechanism is effectively demonstrated its influence through non-market distribution of character made the disastrous alternative institutions and quasi-neo-liberalism as their ideological basis. It is therefore no exaggeration to claim that they represent the core of privileges (access to resources, their appropriation of rapacious character, spreading the power and monopoly, blocking the massive freedoms which were only propagated, violating the election promises, etc.), enabled by the political parties and coalitions in power. This has led to numerous conflicts regarding methods of organizing the social, political and economic realities, and their interrelationship.

Generally speaking, all institutional indicators, institutional innovation and institutional changes are unsatisfactory. They are far behind the corresponding indicators in developed countries. Economic practice of the SEE6 region indicates extreme crisis characteristics in a long run. Most authors think that the main cause for the failure of previous "reforms" is deficit of real institutional change, i.e. conscious, programmed and interest-oriented, disregarding the institutional factors of development and institutional pluralism as a civilizational imperative and development priority.

## 2. Theoretical approach

Many authors rightfully emphasize the significance of coordination as the process of mu-

<sup>1</sup> It comprises various socio-pathological creations, grey economy, endurance in the application of wrong monistic formulas of neoliberal „shock therapy“, compensating for the strictness of formal rules by their non-performance, corruption, attenuation of property rights, formation of various behaviour stereotypes, actuation of informal behaviours (spreading institutional conflicts) etc.

tual harmonization of certain economic institutions of market regulations and state regulations. That way, they directly advocate the equality, inter-conditionality and mutual effects of economic institutes as constituents of the mutual economic mechanism of coordination and regulation.

Theory and practice show that: a) efficient social and economic institutions are conducive to economic development, and b) normal functioning of developed countries and economies, which are increasingly exposed to the crisis, is not possible without the active implementation of institutional pluralism. Furthermore, the institutional pluralism is understood as a combination of:

- state and market regulation (in the economic level)
- political democracy, the rule of law, social and cultural capital, and other social subsystems (in the social level), and
- formal and informal institutions, their balanced action and dominance and control over all forms of alternative institutions.

Institutional rules of conduct in the western (and other developed) economic systems have been established in an evolutionary way, as a result of their consistent application and centuries of development (economic, industrial, financial, political, trade, social, cultural, organizational, corporate and other). In transition economies of the SEE6 region, institutional changes are relatively recent. Nevertheless, three arguments confirm deliberate blocking of institutional changes by the nomenclature in power and their lobbyists: First, two and a half decades was a long period, enough to raise awareness of their importance and their actual implementation in practice; Second, there were undisputed and numerous exemplary models in developed countries; and Third, a large number of theoretical papers was published in the region and beyond, clearly indicating the imperative of real institutional changes and institutional pluralism.

Many theoretical studies of foreign authors from the West (D. North, A. Denzau, J. Wallis, B. Weingast, J. Stiglitz, D. Acemoglu, S. Johnson, J. Robinson, J. Hirshleifer, G. Calabresi, D. Harvey, N. Klein, G. Kolodko, D. Rodrik et al.), and from Russia (V. Polterovič, E. Popov, B. Yerznkian, et al.), as well as authors from the SEE6 region, broadened with the authors from Croatia and Slovenia (V. Draskovic, D. Stoyanov, M. Mesarić, G. Santini, Z. Baletić, D. Cvijeticanin, M. Sekulović, M. Jaksic, J. Mencinger, S. Kulic, J. Dusanic, M. Kovacevic, A. Cakardic, M. Draskovic, R. Jovovic et al.) have confirmed the absolute dominance of conceptual understanding of the following:

— positive impact of realistically-developed social and economic institutional framework (formal and informal) on economic development, despite the destructive impact of alternative institutions;

— economic development requires a pluralistic (combined, synergistic, integral) action of formal and informal, economic and social institutions, while their monistic (selective, exclusive and interest-oriented) action contradicts all the development and civilized norms and models;

— economic development assumes that all the people (massiveness!) under equal and fair conditions are allowed a realistic approach of individualistic, liberal and market values and economic resources, not only systematically privileged individuals. This criterion clearly differentiates rhetoric from practice, neo-liberal from quasi-neoliberal model, virtual from real, promises from actual manifestation, freedom for the rare (privileged "elitist" minority) from quasi-institutional violence against the underprivileged and looted mass,

— criticism of unscientific and consistent justification of neoliberal ("reformed") application, economic policy ("pathology of the neoliberal model" [4, p. 12], for which was clearly converted through vulgarization of the theoretical model into a dogmatic and apologetic quasi-neoliberalism and the corresponding anti-institutional practical solutions, which have become one of the major causes of catastrophic economic results in the SEE6 region, and led to long-term reproduction of social and economic crisis; and

— proving that some institutions (primarily state regulation) have been abused and turned into a cover for their unlimited circumvention, interest and rent orientated behavior and enrichment of the ruling nomenclature. This is possible only in conditions of (almost) total domination of politics over economics, which eliminates the institutional competition.

In the period of monitoring of the SEE6 region, there was a classic and drastic substitution of formal and informal institutions by alternative institutions, institutional pluralism by quasi-institutional monism of alleged neo-liberal type and mass individualism by the privileged few individuals, who have enriched themselves at some of the non-market ways. V. Draskovic [5, p. 289] has modeled his research starting from the logical assumption that the total profit of privileged individuals is equal to the total loss of the nation. From this assumptions, he has performed a simple (approximate) formula, according to which

$$Bd + Fi + G = Woe;$$

*Bd* stands for the brain drain, *Fi* is foreign investments, *G* is grey economy and *Woe* stands for the wealth of elites. He has pointed out that details of the formula presented above are equal to particular items that present the total of the privatized assets (mainly snatched). The wealth could be indicated only as a small percentage, because majority of it lies in the estates. This leads us to the conclusion that privatized goods have not been properly invested. There are no jobs because there was no investing, and there was no investing because of the lack of the capital. The capital was held in the different funds, reserves and belongings. Direct foreign investments ended up as short-term developing solution, being transferred through various channels with mistrust. The total societal disfigures and minimal welfare to able individuals was absorbed within climate of unequal availability to resources.

All this have happened under the wing of so often criticized but misused state (with stories about "minimal state") and through absolutization of the market (which was very cramped, distorted and monopolized). This historical paradox has enabled mass deception of the people in the observed region (as well as a much wider area), which was functionally subordinated to the interest motives of alibi-reformers.

In theory, there are discussions on border issues and scope of some economic institutions (state and market regulation), their social and economic orientation and engagement, and those discourses define the institutional balance and metaphorical-analytical term "institutional man" as a synonym of limited economic rationality. However, in order to have the title of consistency and scientific basis, these discussions must not question the widely accepted rational recommendations of neo-institutional economic theories, and especially those related to the imperativeness of institutional pluralism, which is absolutely proven in developed countries and regions.

### 3. Ignoring institutional pluralism

In theory and practice, the concept of institutional pluralism is contrary to neo-liberal concept of quasi-institutional monism, which directly supports the substitution of mass individualism by individualism of the few (the privileged "elite").

In all neo-institutional and new-institutional economic theories, although based on neoclassical methodological individualism, the application of institutional pluralism in economic development is directly suggested by its many interpretations of public choice, property rights, optimal contract, etc. Thus, for example, A. Denzau

Table 1

## The factors that enable the existence of institutional pluralism

| Negative impacts ↓  |   | Deficit ↓   |   | Surplus ↓   |
|---|---|---|---|---|
| socio-cultural,<br>party,<br>political,<br>ideological,<br>socio-psychological,<br>armed conflicts and<br>globalization | → | economic freedoms,<br>of real institutional change,<br>institutional controls,<br>institutional innovation,<br>institutional competition,<br>the rule of law,<br>protection and specification of property rights,<br>market competition,<br>economic growth and<br>economic development | → | of institutional failure,<br>alternative institutions,<br>opportunistic behavior,<br>misuse of state,<br>monopolistic behavior,<br>asymmetric information,<br>rent secing,<br>economic crisis,<br>privilege,<br>inequality,<br>unemployment,<br>poverty |

Source: Author's creation.

and D. North [6, p. 20] have insisted on "co-evolutionary process" as an ideology and institutions, emphasizing that complementarity and synergy of institutions for market and state regulation have no rational alternative. Three decades ago, D. North [7, p. 32] used the term "institutional structure" as a synonym for pluralism of institutions, referring primarily to the "structure of property rights to achieve the maximization of income (social welfare — author's note) and a high level of freedom" (through the minimization of costs for specification and protection of ownership rights — author's note). G. Hodgson [8, p. 8] has also stated that need for institutional synergies as a "bridge between the two levels of analysis," which is reflected in the encounter approximation "from the macroeconomic top to the microeconomic bottom."

Three decades ago D. North [7, p. 32] wrote about the importance of institutional pluralism in the following way, "The dominant goal of the capitalist state is the construction of such institutional structures, especially the structure of ownership rights, using which it achieves maximization of income (social welfare-remark by the author) and a high degree of freedom" (through minimization of costs for specification and protection of property rights — remark by authors).

None of this has been achieved in the SEE6 region! The causes and consequences of ignoring the institutional pluralism are listed in Table 1.

Table 1 indicates that negative impacts were numerous. They acted cumulatively and directly contributed to the creation of many deficits and surpluses in key social and economic areas where they should not be existing.

#### 4. The action of anti-institutional factors

The failure of transition in the SEE6 countries is undoubtedly the result of applying the "reform"

politics with double standards. Under the rhetorical neo-liberal mask of the market, competition, entrepreneurship and freedom, the politics and strategy of "reformers" were oriented toward non-market process, motivated strictly by individual interests, instead of propagated social and economic results.

Significant for this study is to identify the anti-institutional factors that actively participate in society and economic reality of the SEE6 region. In other words, it is important to answer this question: What, who and why interferes with real institutional changes, and formation and development of effective institutions? The accurate answer is this: Real institutional changes are blocked due to:

- a) interest formation and long-term dominance of alternative institutions, and
- b) degradation of the freedom of individuals on a mass scale, which should provide a competitive decentralized political environment.

The effects of the alternative institutes system were especially visible in numerous examples of the rapacious privatization, which has not been completed yet in most of the SEE6 countries.

The mass phenomenon of accessing the resources, personal and economic freedom, employment, and motivation, legal institutions (formal and informal) and to their pluralistic activity in the SEE6 region have been fragmentary and episodic, rather than universal and compulsory (Fig. 2 — shaded area).

The monograph "Violence and Social Orders — A Conceptual Framework for Interpreting Recorded Human History" [9] studies the ways to limit violence in society (especially violence over the massiveness — author's note), for which the authors reasonably consider to be the main anti-institutional factor. Discussing the basic conclusions of this study, V. Draskovic and M. Delibasic [10, pp. 44-45] have pointed out the following: On the



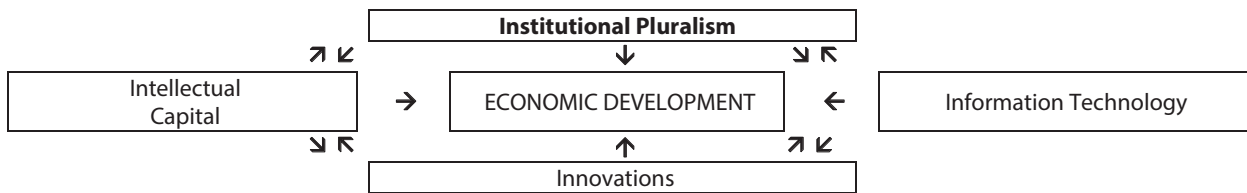


Fig. 1. Institutional pluralism as one of the factors in economic development

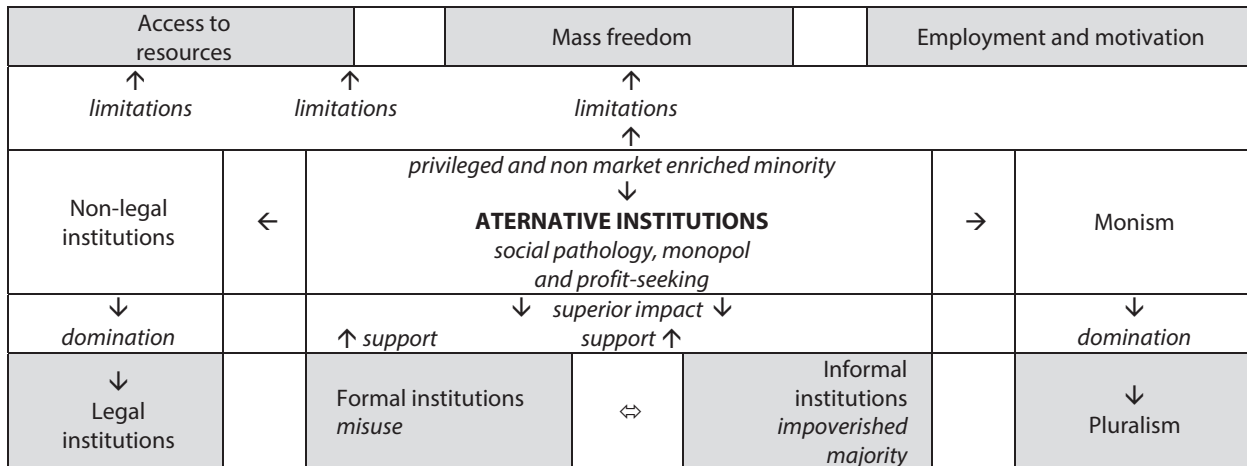


Fig. 2. The brake mechanism of alternative institutions

other hand, it promoted further growth. According to North, Walis and Weingast, ferocity stands for different forms of sociopathology: the off-market dedication of rents, corrupting the voters, taking advantage of privileged position, conflict of interests, ignoring the needs of the voters, etc. The mentioned authors demonstrate the possibility of gerrymandering in order to manipulate economy and build "old-boy" networking that exists separately from institutions, excused from any political and economic rivalry.

This input of neoliberal doctrine in the countries with such exclusive privileges was putting the elites in the favourable position for the rent collection. Such rights were coming out of the lack of institutional structure with a notion of nepotism and mastering the string pulling. In such constellation, without strict following particular written rules and regulations, politics takes charge of the economy, elites manipulate the population, and semi-existing institutions identified with leaders are abundant. The authors above focus on the restricted areas bolstered by the weak legislative and judicial foundations, lack of freedom guarantees and extinguished competition in the society. Pyramidal hierarchy is determined by the individuals' position in the society. The hierarchical system of society infrastructure totally decreases the civic productivity. On the contrary, bribery phenomenon becomes an every-day business standard in relationship with clients. It's overwhelming because it lacks the options to eliminate already formed malign institutional structure.

All analyzes of economic effects of transition of the SEE countries, and forced liberalization, and "rapacious" privatization, clearly show a "transformational recession" [11] from 1991 to 1995, and then criminalization and collapse of economy in the period of so-called "prolonged transition" from 1995 to 2015. Overall, this has led to a number of negative externalities, deepening and reproducing the economy and general social crisis. Practice has shown that formal institutional "reforms" in the SEE6 countries did not adapt to the strategies "evolution of social institutions" [12] and "transplant institutions" [13, 14].

The causes were social, political and interest. They have enabled adjustment, forcing and reproduction of institutional dysfunctionality (paternalism, nepotism, passivity, tradition of violating the legal norms, possibilities of unpunished manipulation, abuse and compensation, log rolling, lobbying, rent orientated behavior, etc.). Therefore, there has been a parallel disruption and erosion of public interest and strengthening of the interest and power of the ruling "elite".

In the SEE6 region, political decisions have had a significant impact on redistribution and allocation of resources, which led to the criminalization of the economy and negative economic results.

Indisputably, the SEE countries have also seen some positive systemic changes<sup>1</sup> and institutional

<sup>1</sup> Many positive institutional changes cannot be negated, nor the truth that they are significantly neutralized by negative and hindering actions. Seemingly the worst of all is lacking the nec-

transformations. However, formed and rooted alternative institutions (in shadow) have been dominating in practice over the formal and informal institutions. The great influence of interest groups, which were rent-oriented, quasi-market and preferential in accessing the resources was achieved through alternative institutions. They have formed the recombinant institutional order, where structured government have determined and dosed the level, quality and speed of institutional changes, giving priority to their own narrow, lobbying interests in relation to general social interests. In this way, the massiveness, substituted by the privileged individualism, filed under the quasi-neoliberal rhetoric was propagated, which in essence was institutionally monistic. This has led to numerous contradictions, misconceptions, dilemmas, mistakes and problems, which resulted in poor economic performance (Table 2).

In the period from 1989 to 2009, the SEE region had an annual GDP growth rate of only 0.5 %, while some countries had a negative growth rate: -2.9 % Serbia, Montenegro -1.1 %, and Bosnia and Herzegovina -0.1 % [15, p. 15]. In the period from 2009 to 2013, real GDP growth was 13.9 % in Albania, 6.9 % in FYR of Macedonia, 0.7 % in Montenegro, -0.5 % in Serbia, and -1.2 % in Bosnia and Herzegovina [16]. Fig. 3 shows a large drop in GDP at the beginning of the global economic crisis, which had an extremely negative impact on the SEE6 region. The fall in economic activity directly influenced the rapid growth of unemployment, reaching a large scale, and average for SEE6 was 24.5 %, which was two times higher than in the EU. Unemployment was above average in Kosovo (43.5 %), in FYR of Macedonia (31 %) and in Bosnia and Herzegovina (27.5 %).

In the same period, public debt has increased significantly in the SEE region, and in some countries is even doubled. Thus, for example: in Serbia is increased from 29.2 % to 59.6 % of GDP, and in Montenegro from 28.7 % to 59.6 % [<http://www.javnidug.gov.rs>; <http://www.indexmundi.com>; <http://www.cb-mn.org>]. With economic crisis in Europe 2008, all the SEE countries had problems with public finances, there was a drop or stagnation of GDP, which was supposed to finance increased government spending. The scissors of lower GDP and higher government expenditures were occurred. To compensate for funds lacking in their budgets, these countries kept borrowing funds. Thus, after 2008, public debt began to grow much faster than GDP, and after a while it created

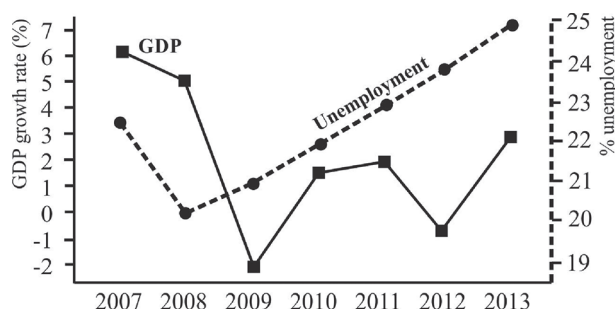
essary institutional synergism and mass propagated property changes.

Table 2

**Selected economic indicators for the SEE6 region in 2013**  
(Annual percentage change)

|   |                |
|---|----------------|
| Real GDP weighted average                       | 2,5            |
| GDP compared to the EU average                  | 25             |
| Unemployment                                    | 15–31 %        |
| Current Account Balance                         | /-1,8/ — /-15/ |
| Consumer prices                                 | 1,9–7,7        |
| Average Wage                                    | 330–480        |
| The share of public debt with guarantees in GDP | 41–70          |
| FDI (US\$ per capita)                           | 77–869         |
| Rang Growth Competitiveness Index               | 67–101         |

Source: National statistical offices and World Bank.



**Fig. 3.** GDP growth rate, and unemployment rate for the region SEE6 (2007–2013)

the debt problem. Data for Montenegro and Serbia are shown in fig. 4.

In addition to these economic trends, unfavorable is also the average inflation rate of 6.7 %, which is three times higher than in the EU (2.3 %). Particularly high is the rate of food inflation (9.3 %). World Bank estimates that 33 % of the population in the SEE6 region lives in poverty, and 8 % lives in the extreme poverty. Economic recession was followed by the consequent increase of poverty and inequality. Poverty is associated with unemployment, and therefore it is the largest in Kosovo (80 %), Albania (60 %) and FYR of Macedonia (41 %). Expanding of inequality has begun immediately after the start of the post-socialist transition, after the first "rapacious" privatizations and it has been continuous since. Huge gap between mass poverty and accumulated wealth is the result of unequal access to resources, party distribution of the privilege, monopoly distribution of property rights, and deficit of the competition at all levels.

Apart from the problems with sustainability of public finances, negative impact to the economic growth has been present in economy overall and lack of competitiveness of enterprises, as well as numerous structural barriers and disproportions. Economic problems have existed in an environment of disturbed social value systems.

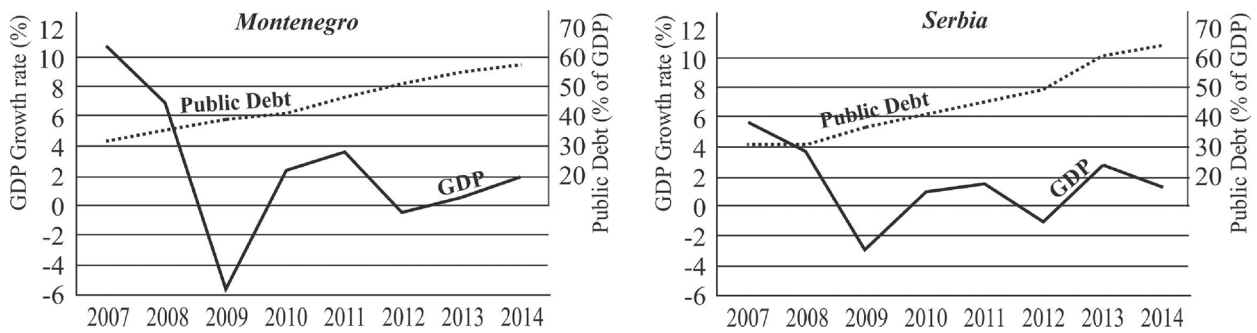


Fig. 4. GDP Growth rate, and Public Debt for the Montenegro and Serbia (%)

Party membership, authority, eligibility and belief were forced at the expense of profession, creativity, knowledge and science. Negative selection of personnel, criminalization of economy, corruption and a range of socio-pathological phenomena were flourished. There has been an impoverishment of the people and the enormous enrichment of the minority, which led to the destruction of the middle class, concentration of the political and economic power and continuation of authoritarian traditions.

Post-socialist transition in the SEE6 countries was conducted as a velvet revolution and as a response to the socialistic tyranny (the party, goals, slogans, promises). However, the recombination of old and new form of tyranny was being enforced. New and larger problems have occurred, as well as contradictions, crisis, poverty, disintegration and uncertainty. Socialist vices were transformed into even worse and heavier — post socialistic. Transition dogmas were formed, replacing the socialist. Economy institutions have been replaced by pseudo-forms (imitation and improvisation).

The use of apparatus of force and charismatic of "strong men in politics" has paradoxically subordinated the economic policy for the realization of private and party interests [18]. It represented the main obstacle to institutional changes, in addition to the prominent sociopath logical milieu. It all resulted in a long-term destabilisation of economic systems in SEE6 region.

The dominance of the political (party) interest has functionally determined all economic and social institutions, especially in the redistribution of property rights. Implemented in this way was the control and monopolization of all important economic processes, economic policy and major events in the economic reality. Supremacy of "alternative" informal rules of conduct over formal and informal institutions [19] was forced. This process was carried out with high interest sign. "Economic imperialism" was metaphorically copy-pasted from the neo-institutional theory to the post-socialist practice of the SEE6 region. This contradicts numerous studies [20] which presents

institutional restructuring for economic evolution over the longer period of time, being the most supportive economic resurgence in the long run.

## 5. Conclusion

Reduced activity of formal and informal institutions, and their substitution by strong alternative institutions was and still is the bottleneck of economic development in the SEE6 region. Therefore, it is necessary to increase efforts in building and developing the consistent and pluralistic institutional (regulatory) model. In this sense, it is particularly important to explore practical exemplary model, the experience of which in certain segments can be successfully used and combined with its own specificities.

All "development" models that ignore institutions are unsustainable. Instead of forming and developing the effective institutions, transition countries in the SEE6 region were dominated by various forms of alternative institutions. They were the main generator of creating inefficient, imitation-interest and dysfunctional (vertical) institutional order.

In theoretical and practical sense, institutional pluralism is imposed as a basic principle of the civilizational development. Only institutional pluralism can successfully resolve, regulate, stimulate and limit the contradictions between general and private interests.

The analysis in this paper has confirmed the initial hypothesis. It has clearly showed that deficit of institutional pluralism and real functioning of formal institutions in the SEE6 region is conditioned by their subordination to the alternative institutions. This has ultimately led to deformation, reduction and asymmetry of information, so the economic choices have become subjective and determined by preferential access to resources. Transaction costs were constantly growing. All this resulted in the creation of a strong anti-institutional hindering mechanism, which contributed significantly to the formation of a long-term and inertial reproduction of crisis and many development barriers.

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